



# Senate

General Assembly

January Session, 2009

**File No. 852**

Senate Bill No. 1123

*Senate, April 30, 2009*

The Committee on Appropriations reported through SEN. HARP of the 10th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

## **AN ACT CONCERNING FLEXIBLE SPENDING ACCOUNTS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective July 1, 2009*) The State Comptroller shall,  
2 from time to time, transfer from the Employers Social Security Tax  
3 account (1) an amount equal to any savings in said account resulting  
4 from employee participation in the flexible spending account  
5 programs established in sections 5-264b to 5-264e, inclusive, of the  
6 general statutes, and (2) the amount of any forfeitures in said flexible  
7 spending account programs to an account in a restrictive grant fund,  
8 for payment of the administrative costs of the flexible spending  
9 account programs.

This act shall take effect as follows and shall amend the following sections:

Section 1	<i>July 1, 2009</i>	New section
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**APP** Joint Favorable

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

### **OFA Fiscal Note**

#### **State Impact:**

<b>Agency Affected</b>	<b>Fund-Effect</b>	<b>FY 10 \$</b>	<b>FY 11 \$</b>
State Comptroller - Fringe Benefits	GF & TF - Neutral Impact	See Below	See Below
Department of Revenue Services	GF - Revenue Loss	Indeterminate	Indeterminate

Note: GF=General Fund; TF = Transportation Fund

#### **Municipal Impact:** None

#### **Explanation**

The bill provides a mechanism for the Comptroller to implement medical flexible spending accounts (FSA) for state employees. FSAs will allow state employees to make pre-tax salary contributions to pay for qualified medical expenses that are not reimbursed by the state employee health plans. The funds put into an FSA are not subject to Federal and State income taxes, and FICA taxes. Reducing taxable income will result in lower FICA tax (7.65%) contributions for the state as an employer. These social security "savings" would then be transferred to an account in a restrictive grant fund to cover administrative costs of the program, resulting in a neutral fiscal impact. In addition, however, the bill will result in a loss in state income tax revenue. The amount of the revenue loss cannot be estimated as the number of participants and the FSA minimum and maximum contributions are not known at this time.

The bill requires the Comptroller to pay for the administrative costs associated with the program (approximately \$3 per employee per month) by transferring savings from the social security account and by using any FSA forfeitures. Although the bill is effective as of July 1, 2009 the Office of the State Comptroller has indicated that enrollment

in the FSA program would not begin until January 1, 2010 as payroll deductions must be made annually on a calendar year basis.

For illustrative purposes, an employee with an annual salary of \$60,000 and a \$1,500 FSA account would result in the following impact to the State and the individual employee:

State FICA Savings Transferred to FSA Account	\$114.75
State Administrative Cost Paid by FSA Account	(\$36.00)
<b>FSA Account Balance</b>	<b>\$78.75</b>
State Revenue Loss	(\$77.00)
<b>Revenue Impact</b>	<b>(\$77.00)</b>

Individual Employee FICA Savings	\$114.75
Employee Federal Tax Savings	\$387.00
<u>Employee State Tax Savings</u>	<u>\$77.00</u>
<b>Annual Employee Savings</b>	<b>\$578.75</b>

### ***The Out Years***

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

Sources: Internal Revenue Services Tax Code  
Office of Legislative Research  
Office of the State Comptroller

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**OFA Bill Analysis****SB 1123*****AN ACT CONCERNING FLEXIBLE SPENDING ACCOUNTS.*****SUMMARY:**

This bill provides a mechanism for the Comptroller to implement an FSA program for state employees. The bill requires the Comptroller to pay for the administrative costs associated with the program by transferring savings from the social security account and by using any FSA forfeitures. Although Connecticut General Statutes (§ 5-264d and 5-264e) currently authorize the Comptroller to maintain a flexible health care spending account program for state employees, the program has not been implemented because there is no provision to fund its administrative costs.

EFFECTIVE DATE: July 1, 2009

**BACKGROUND**

The federal tax code makes it possible for employers to offer their employees a variety of nontaxable “qualified” benefits including flexible spending accounts (IRC § 125).

A qualified benefit is a benefit which is excludable from an employee's gross income under a specific provision of the tax code, without being subject to the principles of constructive receipt. Qualified benefits include health care, vision and dental care, group-term life insurance, disability, adoption assistance, and certain other benefits (IRC §§ 125(a), 125(f), 79, 105, 106, 129, and 137).

Flexible spending accounts (FSAs) permit employees to allocate a portion of their salaries pre-tax for certain incurred medical expenses

not covered by their health insurance policies, including health care deductibles, coinsurances, as well as dependent care expenses. Employers may also contribute to the accounts, but are not required to do so. The code includes a “use-it-or-lose-it” rule that means employees forfeit any money left in the account at the end of the year.

**COMMITTEE ACTION**

Appropriations Committee

Joint Favorable Report

Yea 37 Nay 13 (04/13/2009)